

December 8, 1994

Memorandum to      Leon Fuerth  
                            Office of the Vice President

From:                 Bill White, Deputy Secretary of Energy BW

Re:                    Komi Oil Spill Report to the Vice President

### BACKGROUND

A thirty kilometer section of the Komineft Pipeline between Kharyaga and Usinsk continues to leak oil into the environment from at least twenty-nine discernible locations. Prior to April 1995, the normally swampy areas throughout the spill region are frozen and permit overland transport with minimal disturbance to soil and vegetation. The frozen river and creek beds can be used as roads to reach otherwise inaccessible deposits of oil. The flooding in April 1995 will carry the crude into the Kolva, Usa, and Pechora Rivers. This occurrence would adversely affect 40,000 persons relying on the rivers for water supply, salmon and other edible fish species, and water fowl which are the principal food sources in the area.

Several western oil producing companies have indicated that they are willing to work out a commercial arrangement to finance the replacement of the entire Komineft pipeline system if they are invited to do so by Komineft, so long as they receive long-term guarantees that their oil can be exported and that they can recover their investment. The pipeline would be built and operated to western standards. Loans acquired to finance the project could be repaid through a tariff on oil transported in the new system. (More detail in Attachment 1)

### OBJECTIVES

The Vice President's discussion with Chernomyrdin and the resulting actions should:

1.      Begin a process for establishment of international standards for protection of the Arctic environment and the development of oil and gas, to permit more sustainable development of Arctic oil and gas resources.
2.      Avoid continuing environmental damage along the Komineft pipeline.

## DELIVERABLES

1. Conoco and Komineft could sign an agreement, mutually undertaking to work together to develop a reasonable commercial solution to repair of the pipeline.
2. Several entities, including Chevron and the Northern Forum, could sign an agreement to loan equipment that would be helpful to Komi workers cleaning up the spill, provided that the equipment is returned in good repair.

We will work to arrange the deliverables.

## THE VICE PRESIDENT'S DISCUSSION WITH PRIME MINISTER CHERNOMYRDIN

The tone of the Vice President's discussions should respect Russian pride and avoid assigning blame or criticizing their environmental stewardship. He should acknowledge the hard work that Komineft and the Komi people have done to respond to the problem without much capital or equipment. (See Attachment 2)

He could outline to Chernomyrdin certain actions the Russian Government could take to facilitate a solution. Those things would include:

- Commit to facilitate a long-term transportation agreement for export of oil produced by the people who are rebuilding the pipeline.
- Commit to spend a portion of the fines, that are ultimately assessed against Komineft, on the effort to repair the line and contain the oil already released to the environment.
- Support the efforts of the Komi Republic and Komineft to effect a commercial solution to the leaking pipeline problem with western oil companies.
- Encourage the Komi Republic and Komineft to accept offers of equipment, supplies and manpower that have been made to them by various companies and international organizations.
- Identify an appropriate environmental assessment and remediation effort.

## MORE DETAILED PLAN

Resolving the problem of the Komi oil pipeline requires two steps. In the short-term, before April 1995, stop the pipeline from leaking and clean up or contain oil already in the environment. For the long-term, replace the pipeline entirely with a state of the art system designed for Arctic activity. (More detail in Attachment 3)

- A. SHORT TERM. Work should begin as soon as possible and be completed by April to repair the leaking pipeline and contain or remove oil in the vicinity.

COST. One estimate for the replacement of the 30-kilometer portion of pipeline and the clean-up action plan is \$50 million.

FINANCING. A World Bank emergency loan could be developed in as few as four weeks. Discussions have occurred between Ex-Im and AID officials and staff at the World Bank, but the status and conditions have not been determined at the time of this memo. World Bank staff is considering the idea, but Russian reluctance to guarantee export of oil will delay a decision. Financing options are discussed in more detail in Attachment 4.

- B. LONG-TERM. The entire 142 kilometer pipeline from Kharyaga to Usinsk must be replaced by a pipeline system meeting Western standards for the Arctic environment. Several western companies, including Conoco, have indicated a willingness to participate financially in this project on three conditions: (1) the work must be done under a commercial arrangement so that they can recover their costs; (2) the new pipeline must be built and operated to western standards for Arctic operation; and (3) the producers who participate in the project must be allowed access to the Transneft pipeline system with a long-term transportation agreement and have a reliable outlet for direct export of their oil.

COST. Komineft line from Kharyaga to Usinsk, \$125 million.  
Transneft interconnect at Yaroslav, \$25 million.

FINANCING. Export-Import Bank and World Bank each have available facilities to finance a commercial arrangement. Financing options are discussed in more detail in Attachment 4.